



# REPORT OF CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE PRACTICES

For the year ended 31st December 2006, in the opinion of the Board, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Listing Rules with deviation from code provision A.4.1 of the Code in respect of the service term of independent non-executive Directors.

### Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors of the Company. Having made specific enquiries of all Directors, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code for the year ended 31st December 2006.

### The Board

#### *Composition and appointment*

As at 31st December 2006, the Board comprises seven Directors, including three executive Directors and four independent non-executive Directors. Names and biographies of the Directors are set out on page 11 of this annual report. The term of office for all of the Directors (including non-executive Directors) is not specified.

None of the existing non-executive Directors of the Company is appointed for a specified term. This constitutes a deviation from code provision A.4.1 of the Code. However, not less than one-third of the Directors of the Company (both executive and non-executive) are subject to retirement by rotation at each annual general meeting in accordance with the Articles of Association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are similar to those provided in the Code.

The Company has complied with Rules 3.10 (1) and (2) of the Listing Rules, two of the independent non-executive Directors possess the requisite appropriate professional qualifications. The Board confirmed that the independence and eligibility of the independent non-executive Directors are in compliance with the relevant requirements of the Listing Rules.

The Board has effectively overseen and monitored the activities of the Company, ensured a proper internal control system is in place and the decisions were made in the best interests of the Company. During the financial year ended 31st December 2006, the Board convened a total of 39 meetings, performing its duties in considering, inter alia, rights issue, placing of the Company’s shares, and financial and other matters pursuant to the provisions of the Articles of Association of the Company. Real-time teleconference system was adopted at each meeting to increase the attendance rate. The attendance rate of executive directors was 100%.

# REPORT OF CORPORATE GOVERNANCE

Statistics of Directors' attendance at the Board meetings during the year ended 31st December 2006:

Name of Director	Attendance		Title
	Times	Rate (%)	
Chung Yuk Lun	39	100	Chairman, Executive Director
Nakajima Toshiharu	39	100	Chief Executive Officer, Executive Director
Shimazaki Koji	39	100	Executive Director
Chung Wilson (appointed on 11th January and resigned on 5th June 2006)	11	28	Executive Director
Szeto Siu Kit (resigned on 27th February 2006)	6	15	Executive Director
Chan Sze Hung	6	15	Independent Non-Executive Director
Wong Kai Cheong	6	15	Independent Non-Executive Director
Kan Kwok Shu, Albert	7	18	Independent Non-Executive Director
Wong Wai Man, Raymond	6	15	Independent Non-Executive Director
Kwok Wai Ming (resigned on 6th January 2006)	0	0	Independent Non-Executive Director

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

## ***Chairman and chief executive officer***

The office of chairman and chief executive officer of the Company has been segregated by different individuals, namely Mr. Chung Yuk Lun, the Chairman, and Mr. Nakajima Toshiharu, the Chief Executive Officer, since February 2006 and, hence, the Company has complied with A.4.2 of the Code. Mr. Chung and Mr. Nakajima are not related to each other in financial, business or family aspects.

## **ACCOUNTABILITY AND AUDIT**

### ***Financial Reporting***

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

## REPORT OF CORPORATE GOVERNANCE

The directors acknowledge their responsibilities for preparing the financial statements of the Group. The directors' responsibilities in the preparation of the financial statements and the auditors' responsibilities are set out in the Report of the Auditors. The responsibility of the external auditors is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by auditors about their reporting responsibility is set out in the Report of the Auditors.

### INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Company's internal control system and risk management procedures and for reviewing the effectiveness of the Company's internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal controls of the Group.

The Group is committed to the identification, monitoring and management of risks associated with its business activities. The Group's internal control system is designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objective. The system includes a defined management structure with segregation of duties and a cash management system such as monthly reconciliation of bank accounts.

The Board reviews the effectiveness of the Group's material internal controls. Based on information furnished to it and on its own observations, the Board is satisfied with present internal controls of the Group.

### REMUNERATION COMMITTEE

The Company has a remuneration committee for determining the remuneration of Directors. The members of the remuneration committee are: **Chung Yuk Lun, Chan Sze Hung and Wong Kai Cheong**. During the financial year ended 31st December 2006, the committee held 1 meeting to discuss remuneration related matters. The individual attendance of each member is as follows:–

Name of member	Attendance		Title
	Times	Rate (%)	
Chan Sze Hung	1	100	Chairman, Independent Non-Executive Director
Wong Kai Cheong	1	100	Independent Non-Executive Director
Chung Yuk Lun	1	100	Executive Director

Mr. Chan Sze Hung is the chairman of the remuneration committee. The remuneration committee is responsible for the following functions: determining the policy for remuneration of Directors and senior management, assessing performance of executive Directors, as well as determining the emolument policy of the Company.

# REPORT OF CORPORATE GOVERNANCE

## Auditors' Remuneration

For the year ended 31st December 2006, the auditors of the Company have carried out the audit works amounted to HK\$155,000 for the Company.

## Audit committee

The audit committee comprises four independent non-executive Directors and Chan Sze Hung serves as the chairman of the audit committee. No member of the audit committee is a member of the former or existing auditor of the Company.

During the year ended 31st December 2006, the audit committee held 2 committee meetings. The attendance of each of the members at such meetings is as follows:-

Name of member	Attendance	Rate	Title
	Times	(%)	
Chan Sze Hung	2	100	Independent Non-Executive Director
Wong Kai Cheong	2	100	Independent Non-Executive Director
Kan Kwok Shu, Albert	1	50	Independent Non-Executive Director
Wong Wai Man, Raymond	2	100	Independent Non-Executive Director

Responsibilities of the audit committee include:

- (1) to be in charge of the appointment of external auditors, auditing expenses and any matters regarding the resignation or dismissal of the external auditors;
- (2) to discuss with the external auditors on the nature and scope of audit prior to the commencement of the auditing procedures; and
- (3) to review the interim and annual accounts.

The audit committee has reviewed the auditing performance, the internal controls and the audited financial statements of the Company for the year ended 31st December 2006.